CIMB Group (CIMB MK)

Potential Risks Largely Priced In

Highlights

- Asset quality risk assessed to be manageable, with first order loan exposure at only 2% of group loans.
- Non-interest income momentum is promising, driven by strong trading and forex income.
- Maintain BUY and target price of RM9.30 (1.28x 2026F P/B, 11.7% ROE). The stock offers the highest dividend yield among domestic large-cap banks at 6.6% for 2026 and 7.1% for 2027 (inclusive of special dividends). Valuations also remain inexpensive on both P/B (1.11x 2026F P/B vs 11.7% ROE) and PER metrics (9.8x FY26F and 9.1x FY27F).

Analysis

- **NIM remains stable.** Overall liquidity across key markets remains healthy, allowing the group to optimise funding costs, with deposit competition staying stable and rational. Wholesale deposit campaign rates, which were seasonally higher, normalised in 1Q26, while retail rates remained steady; this enabled a gradual reduction in campaign and board rates for both segments toward end-1Q26. Group NIM is expected to be stable qoq in 1Q26, as improvements in Malaysia and Singapore are offset by some margin pressure in Indonesia due to yield compression. This follows a 2bp qoq recovery to 2.10% in 4Q25, driven by funding cost optimisation and deposit repricing in Malaysia. We maintain our 2026 NIM forecast of +2bp, in line with management's guidance of -5 to +5bp.
- **Asset quality assessment from high oil prices: First-order impact exposure is limited.** Management has not observed any impact on overall loan growth or asset quality in 1Q26 despite the spike in oil prices. Visibility on how sustained elevated oil prices may affect asset quality remains fluid. However, management believes the direct, first-order impact on its overall portfolio is likely to be contained. By loan sector, exposure to transportation and storage accounts for approximately 2% of total group loans. Including construction brings total exposure to around 6%, which remains relatively manageable. Expanding the scope to capture potential secondary effects, exposure to the wholesale and retail sectors increases the cumulative share to about 13% of group loans.
- **Relatively lower SME exposure helps to contain asset quality risks**. Management alluded that the overall consumer and corporate loan portfolios are expected to remain stable, with any potential pressure likely confined to SMEs, particularly smaller SMEs. Notably, SME exposure at CIMB Group remains relatively modest at 13% of total loans, compared to the peer average of 18%.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net interest income	11,367	11,319	11,904	12,878	13,984
Non-interest income	6,197	6,245	6,533	6,855	7,155
Net profit (rep./act.)	7,728	7,860	8,319	8,980	9,697
Net profit (adj.)	7,728	7,860	8,319	8,980	9,697
EPS (sen)	71.8	73.0	77.3	83.4	90.6
PE (x)	10.6	10.4	9.8	9.1	8.4
P/B (x)	1.2	1.2	1.1	1.1	1.0
Dividend yield (%)	6.2	6.2	6.7	7.2	7.8
Net int margin (%)	2.29	2.24	2.25	2.25	2.26
Cost/income (%)	46.7	47.2	47.5	47.2	46.8
Loan loss cover (%)	105.3	103.2	140.5	223.3	567.7
Consensus net profit	-	-	8,231	8,733	9,318
UOBKH/Consensus (x)	-	-	1.01	1.03	1.04

Source: CIMB Group, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM7.59
Target Price	RM9.30
Upside	22.5%

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Stock Data

GICS Sector	Financials
Bloomberg ticker	CIMB MK
Shares issued (m)	10,803.2
Market cap (RMm)	81,996.1
Market cap (US$m)	20,252.4
3-mth avg daily t'over (US$m)	37.8

Price Performance (%)

52-week high/low				RM8.95/RM6.39
1mth	3mth	6mth	1yr	YTD
(3.6)	(7.1)	4.3	11.3	(8.0)

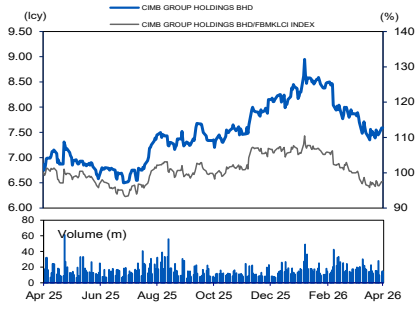
Major Shareholders

	%
Khazanah Nasional Bhd	21.4
EPF	18.9
0Kumpulan Wang Persaraan Diperbadankan	6.4

Balance Sheet Metrics

FY26F NAV/Share (RM)	6.8
FY26F CAR Tier -1 (%)	15.3

Price Chart



Source: Bloomberg

Company Description

CIMB Group is Malaysia's largest investment bank and second-largest consumer bank and one of Southeast Asia's leading universal banking groups.

- **Flexibility to reallocate management overlays helps to contain potential spikes in provisions**. Management introduced overlays in 1Q25–2Q25 for US trade tariffs, which remain intact as asset quality has remained stable over the past 12 months. This provides flexibility to reallocate excess overlays toward potential inflationary pressures from higher oil prices, limiting the need for excessive additional provisions amid the Middle East crisis. Loan-loss coverage remains healthy at 103%, above pre-COVID-19 (87%) and the industry average (85%). We maintain our 2026 net credit cost assumption at 25bp (the low end of management's 25-35bp guidance); every 5bp change implies ~3% impact on earnings.
- Non-interest income outlook remains promising. Financial market volatility in 1Q26 supported strong growth in trading and forex income, driven by increased hedging demand. At the same time, a higher allocation of liquidity into investment securities boosted non-interest income opportunities, albeit with some modest pressure on yields.
- **Indonesia concerns largely priced in?** CIMB Niaga has materially de-risked its portfolio over the past seven years while strengthening coverage, with SME exposure declining from 20% in 2018 to 11% currently and loan-loss coverage rising from 105% to 197%. Sensitivity to further rupiah depreciation remains manageable, with an estimated ~2% impact on group earnings for every 10% depreciation against the ringgit. Notably, the rupiah has already weakened by about 30% vs the ringgit over the past three years, while Bank Indonesia has cut policy rates by 150bp over the past two years to 4.75%, nearing its pre-COVID-19 low of 4.30%. This suggests that much of the downside risk may already be largely priced in.
- **2026 guidance.** Management's key 2026 guidance is as follows: a) ROE: 11.0-11.5%, b) asset growth: 5-7%, c) net credit cost: 25-35bp, and d) Cost to income ratio: less than 47%.
- **Outlook.** Malaysia remains a key focus, currently delivering ROE of above 12% (up from 11%). The group is placing greater emphasis on non-interest income - particularly wealth and transaction banking, including treasury client franchise - to help lift ROE further. Cost discipline is expected to persist. Management is also considering front-loading the committed special dividend program (2026-27) to potentially help support progress toward its ROE target of 12% (2027)

Valuation/Recommendation

- **Maintain BUY and target price of RM9.30 (1.28x 2026F P/B, 11.7% ROE).** The stock offers the highest dividend yield among domestic large-cap banks at 6.6% for 2026 and 7.1% for 2027 (inclusive of special dividends). Valuations also remain inexpensive on both P/B (1.11x 2026F P/B vs 11.7% ROE) and PER metrics (9.8x FY26F and 9.1x FY27F). Given its attractive valuations, we believe that macro headwind concerns in Indonesia have been largely priced in.

Earnings Revision/Risk

- No revision to earnings.
- **Risks.** Key downside risks include: a) sharper-than-expected depreciation of the rupiah, which could weigh on revenue translation from CIMB Niaga; b) weaker-than-anticipated asset quality trends; and c) heightened deposit competition, which may exert further pressure on NIM.

Share Price Catalyst

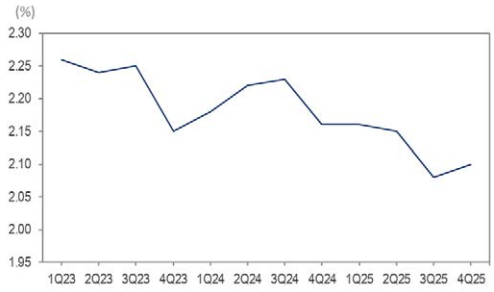
- Stronger-than-expected trading income.
- Stronger-than-expected NIM.

Key Assumptions

(%)	2026F	2027F	2028F
Loan Growth	5.0	5.2	5.5
Credit Cost (bp)	25.0	25.0	25.0
ROE	11.3	11.7	12.1

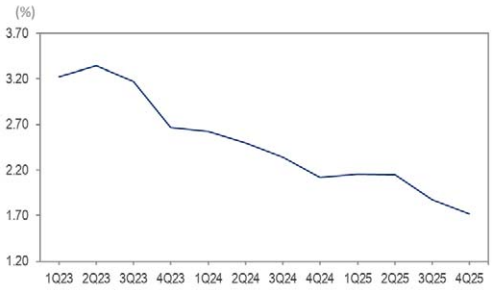
Source: CIMB Group

CIMB Group NIM Trend



Source: CIMB Group

CIMB Group GIL ratio trend



Source: CIMB Group

Environmental, Social, Governance (ESG) Updates

Environmental

- Green loan commitment. To provide RM30b in sustainable financing by 2040.
- Zero new coal financing. Transition all stakeholders to zero carbon emission by 2050.

Social

- Board and upper management gender diversity. Maintained 30% female directors on the Board.
- Enhanced financial inclusion to B40. Provide greater financial inclusion for vulnerable communities (affordable housing financing) and welfare assistance to vulnerable communities, especially the B40 consumers.

Governance

- Non-independent board of directors composition. Composition of Independent Non-Executive Directors (INED) – 60%.

Source: CIMB Group, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Interest income	25,145	26,273	27,834	29,554
Interest expense	(13,826)	(14,369)	(14,956)	(15,570)
Net interest income	11,319	11,904	12,878	13,984
Fees & commissions	2,380	2,666	2,986	3,284
Other income	92	94	96	98
Non-interest income	3,773	3,773	3,773	3,773
Income from Islamic banking	4,959	5,256	5,572	5,906
Total income	22,523	23,693	25,305	27,046
Staff costs	(6,344)	(6,849)	(7,397)	(7,991)
Other operating expense	(4,283)	(4,416)	(4,544)	(4,666)
Pre-provision profit	11,896	12,428	13,364	14,389
Loan loss provision	(1,382)	(1,183)	(1,243)	(1,305)
Other provisions	128	(149)	(140)	(140)
Associated companies	94	74	75	75
Other non-operating income	(56)	0	0	0
Pre-tax profit	10,680	11,170	12,057	13,019
Tax	(2,652)	(2,681)	(2,894)	(3,125)
Minorities	(169)	(170)	(183)	(198)
Net profit	7,860	8,319	8,980	9,697
Net profit (adj.)	7,860	8,319	8,980	9,697

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Cash with central bank	8,217	16,567	17,395	18,265
Govt treasury bills & securities	16,557	16,888	17,226	17,570
Interbank loans	4,658	5,081	5,544	6,048
Customer loans	444,920	464,120	486,545	510,090
Investment securities	214,202	239,621	267,949	299,519
Derivative receivables	15,266	17,097	19,149	21,447
Associates & JVs	2,381	2,500	2,625	2,756
Fixed assets (incl. prop.)	2,567	2,454	2,339	2,221
Other assets	69,956	76,561	83,937	92,181
Total assets	778,724	840,890	902,708	970,098
Interbank deposits	49,908	53,232	56,789	60,596
Customer deposits	510,047	530,449	551,667	573,734
Derivative payables	58,457	60,953	63,555	66,271
Debt equivalents	29,410	29,410	29,410	29,410
Other liabilities	58,994	92,335	123,440	158,643
Total liabilities	706,817	766,379	824,862	888,653
Shareholders' funds	70,561	72,994	76,146	79,547
Minority interest - accumulated	1,347	1,516	1,700	1,898
Total equity & liabilities	778,724	840,890	902,708	970,098

Operating Ratios

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Capital Adequacy				
Tier-1 CAR	14.3	15.2	14.8	14.5
Total CAR	18.0	19.9	19.3	18.6
Total assets/equity (x)	11.0	11.5	11.9	12.2
Tangible assets/tangible common equity (x)	12.3	12.8	13.1	13.5
Asset Quality				
NPL ratio	1.7	1.4	0.9	0.4
Loan loss coverage	103.2	140.5	223.3	567.7
Loan loss reserve/gross loans	1.8	1.9	2.1	2.3
Increase in NPLs	(18.7)	(15.7)	(28.6)	(55.8)
Credit cost (bp)	31.1	25.0	25.0	25.0
Liquidity				
Loan/deposit ratio	87.2	87.5	88.2	88.9
Liquid assets/short-term liabilities	5.2	6.6	6.6	6.6
Liquid assets/total assets	3.8	4.6	4.4	4.3

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Growth				
Net interest income, yoy chg	(0.4)	5.2	8.2	8.6
Fees & commissions, yoy chg	1.3	12.0	12.0	10.0
Pre-provision profit, yoy chg	0.1	4.5	7.5	7.7
Net profit, yoy chg	1.7	5.9	7.9	8.0
Net profit (adj.), yoy chg	1.7	5.9	7.9	8.0
Customer loans, yoy chg	0.6	4.3	4.8	4.8
Customer deposits, yoy chg	2.8	4.0	4.0	4.0
Profitability				
Net interest margin	2.24	2.25	2.25	2.26
Cost/income ratio	47.2	47.5	47.2	46.8
Adjusted ROA	1.0	1.0	1.0	1.0
Reported ROE	11.2	11.6	12.0	12.5
Adjusted ROE	11.2	11.6	12.0	12.5
Valuation				
P/BV (x)	1.2	1.1	1.1	1.0
P/NTA (x)	1.3	1.3	1.2	1.1
Adjusted P/E (x)	10.4	9.8	9.1	8.4
Dividend Yield	6.2	6.7	7.2	7.8
Payout ratio	64.5	65.4	65.4	65.0

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